GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:85
ANSWERED ON:17.02.2006
EXPANSION OF BUSINESS OF BANKS
Rao Shri Sambasiva Rayapati

Will the Minister of FINANCE be pleased to state:

(a) whether the Government has decided to encourage public sector banks to dip Into their investment fluctuation reserves and to take advantage of non-performing assets provisioning and use proceeds from the sale of bad loans to shore up their Tier â€" I capital to expand business;

(b) if so, the extent to which this move will help banks tc raise additional capital to expand business;

(c) whether the Government has also decided to permit banks to issue subordinated bonds to bolster their Tier - ll Capital;

(d) if so, the details thereof;

(e) whether the Government also considered for providing some additional support mechanism for weak public sector banks; arid

(f) if so, whether the Government has agreed to provide such facilities to bank and the extent to which is will be helpful for banks?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) & (b) To encourage the banks for early compliance with the guidelines on maintenance of capital charge for market risks, Reserve Bank of India (RBI) has permitted those banks, which have maintained Capital to Risk Weigbed Asset Ratio (CRAR) of atleast 9% for credit and market risks in respect of securities Held for Trading (HFT) and Available for Sale (AFS) categories as on March 31, 2006, lo treat the entire balance in the Investment Fluctuation Reserve (IFR) as Tier I capital. This would result in an increase of approx. Rs.22,281 crore in Tier I capital of the concerned banks, who would be able to further raise approx. Rs. 11,140 crore as Tier ll capital. Any reduction in risk weighted assets, including through sale of bad loans with capital funds remaining at the same level, results in improvement in CRAR position enabling the banks to expand their business. Further `Floating Provisions` held by the banks which is general in nature and not made against any identified assets may be treated as a part of Tier H capital within the overall ceiling of 1.25 percent of total risk weighted assets, if such provisions are not reduced from gross NPA to arrive at the net NPA.

(c) & (d) Yes, Sir. RBI has, vide its circular dated 8lh February, 1999, permitted banks to issue subordinated bonds to be included as Tier ll capital.

(e) & (f): The banks are under constant regulatory and supervisory purview of RBI. As and when a request is received from a public sec.or bank for support, the same is considered by the Govt. in consultation with RBI.